

## Message Text

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ACTION MMO-02

INFO OCT-01 ARA-10 ISO-00 AID-05 CIAE-00 COME-00 EB-08  
FRB-03 INR-10 NSAE-00 USIA-06 TRSE-00 XMB-02  
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 L-03 A-01  
/062 W

-----008974 161817Z /43

R 161552Z MAR 78  
FM AMEMBASSY BUENOS AIRES  
TO SECSTATE WASHDC 4938  
INFO AMEMBASSY SANTIAGO

LIMITED OFFICIAL USE SECTION 1 OF 4 BUENOS AIRES 1940

E.O. 11652: N/A  
TAGS: EFIN, ECRP, AR  
SUBJECT: CERP 0200: ARGENTINA'S 1978 BUDGET

SUMMARY: ON MARCH 9, THE GOA REVEALED THE DETAILS OF ITS 1978 BUDGET, WHICH CALLS FOR LIMITING THE TREASURY DEFICIT TO ONE PERCENT OF GDP. THE GOAL IS AMBITIOUS AND REPRESENTS A VICTORY FOR MINISTRY OF ECONOMY MARTINEZ DE HOZ AND HIS TOUGH, OUTSPOKEN SECRETARY OF FINANCE JUAN ALEMANN. IF FULFILLED, IT WOULD BE THE FIRST TIME IN MANY YEARS THAT THE GOA DID NOT HAVE TO RESORT TO CENTRAL BANK CREDIT TO FINANCE PUBLIC EXPENDITURES. BECAUSE OF COMMITMENTS INHERITED FROM THE PREVIOUS GOVERNMENT, PUBLIC SECTOR INVESTMENT IS ESTIMATED AT 12.6 PERCENT OF GDP AND MUCH HIGHER THAN THE 8.2 PERCENT OF GDP AVERAGE FOR THE PAST DECADE. HOWEVER, THE GOA VIEWS THE HIGH LEVEL OF PUBLIC WORKS INVESTMENT AS A NEGATIVE FACTOR BECAUSE IT WOULD HAVE PREFERRED TO ALLOCATE MORE FUNDS TO SOCIAL WELFARE TYPE ACTIVITIES (EVEN SO, ALLOCATIONS FOR SOCIAL WELFARE AND EDUCATION WERE INCREASED). AT THE SAME TIME, THE GOA BUDGET MESSAGE CRITICIZES THE SELECTION OF SOME INVESTMENT PROJECTS - WHICH IT BLAMES ON THE PREVIOUS PERONIST REGIME - AND DECRIES WASTE AND SUPERFLUOUS EXPENDITURE IN THEIR EXECUTION. THE

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GOVERNMENT REAFFIRMS ITS DETERMINATION TO MAKE THE GOVERNMENT MORE EFFICIENT, TO REDUCE THE ROLE OF THE PUBLIC SECTOR WHERE POSSIBLE, AND TO SELL STATE-HELD COMPANIES AND SHARES BACK TO THE PRIVATE SECTOR. THE GOVERNMENT ALSO REPEATS ITS OBJECTIVE OF RAISING PUBLIC SECTOR SALARIES BETWEEN 50 AND 100 PERCENT IN REAL TERMS OVER THE NEXT THREE YEARS. ALTHOUGH AN AMBITIOUS BUDGET, WHOSE TARGETS MAY NOT BE FULLY ATTAINED,

IT APPEARS PROBABLE THAT THE FISCAL DEFICIT WILL NOT BE A MAJOR SOURCE OF MONETARY EXPANSION AND THEREFORE INFLATION IN 1978. AT THE SAME TIME, THE FRUGALITY OF THE BUDGET LIMITS GOVERNMENT ACTIONS TO STIMULATE THE ECONOMY OUT OF ITS CURRENT RECESSION. IN VIEW OF THE BUDGET'S UNEVEN EXECUTION, HOWEVER, IT IS LIKELY THAT THE BUDGET WILL HAVE A MORE STIMULATIVE IMPACT IN THE FIRST SEMESTER THAN IN THE SECOND. END SUMMARY.

1. ON MARCH 9, MINISTER OF ECONOMY MARTINEZ DE HOZ MADE PUBLIC AT A PRESS CONFERENCE THE PRINCIPAL DETAILS OF THE LONG AWAITED 1978 BUDGET. THE DOCUMENT WHICH FINALLY EMERGED IS THE RESULT OF MUCH POLITICAL INFIGHTING BUT APPEARS TO REPRESENT ALMOST ENTIRELY THE BUDGET VIEWS EXPRESSED ON EARLIER OCCASIONS BY THE MINISTER. BOTH IN HIS EXPOSITION TO THE PRESS AND IN THE MESSAGE TRANSMITTING THE BUDGET TO THE PRESIDENT, MINISTER DESCRIBES BOTH THE BUDGET'S ACHIEVEMENTS AND ITS FAILURES IN AN UNUSUALLY CANDID MANNER. HIGHLIGHTS ARE SUMMARIZED BELOW:

2. THE TREASURY BUDGET CALLS FOR EXPENDITURES OF 4,048 BILLION PESOS AND REVENUES OF 3,602 BILLION PESOS, LEAVING A DEFICIT OF ROUGHLY 1 PERCENT OF GDP. ACCORDING TO THE MINISTER OF ECONOMY, FOR THE FIRST TIME IN OVER 20 YEARS, NONE OF THE DEFICIT WILL BE FINANCED THROUGH "MONETARY EMISSION" RESULTING FROM CENTRAL BANK CREDIT TO THE TREASURY. LIMITED OFFICIAL USE

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INSTEAD, THE TREASURY WILL FINANCE THE DEFICIT THROUGH PUBLIC BORROWING INTERNALLY, AS WELL AS EXTERNAL CREDITS.

3. THE BUDGET INDICATED THAT THERE WILL BE A GREAT DIFFERENCE IN THE FISCAL IMBALANCE BETWEEN THE FIRST AND SECOND SEMESTERS. IN THE FIRST SEMESTER, EXPENDITURES WILL REMAIN HIGH BECAUSE OF THE SUBSTANTIAL AMOUNT OF PUBLIC WORKS WHICH HAVE TO BE COMPLETED AND AT THE SAME TIME REVENUE WILL BE REDUCED BECAUSE OF SEASONAL FACTORS. THEREFORE THE DEFICIT RATE IN THE FIRST SEMESTER WILL BE LARGER THAN PROJECTED FOR THE FULL YEAR. IN THE SECOND SEMESTER, THE REVERSE WILL BE TRUE, WITH EXPENDITURES REDUCED AND REVENUES INCREASED.

4. IN DISCUSSING DEFICIT CONCEPTS, THE MINISTER STRESSED THAT THE BUDGET DEFICIT USING THE GOA METHODOLOGY (CALCULATING CREDIT AS REGULAR REVENUE) WOULD BE ZERO IN 1978. USING THE CONSOLIDATED BUDGET FOR THE WHOLE PUBLIC SECTOR, INCLUDING BORROWING BY STATE ENTERPRISES AND PROVINCIAL ADMINISTRATIVE GOVERNMENTS FROM NON-TREASURY SOURCES, THE MINISTER SAID THAT THESE ENTITIES WILL ONLY INCREASE THEIR TOTAL INDEBTEDNESS IN 1978 BY A MAXIMUM OF 3.8 PERCENT OF GDP (1.7 PERCENT OF GDP FROM INTERNAL SOURCES AND 2.1 PERCENT OF GDP FROM

EXTERNAL SOURCES). OF THIS TOTAL, THE STATE ENTERPRISES ALONE HAVE HAD THEIR INDEBTEDNESS LIMITED TO 2.2 PERCENT OF GDP (.7 PERCENT OF GDP INTERNAL CREDIT AND 1.5 PERCENT OF GDP EXTERNAL CREDIT). THE MINISTER ALSO CITY FIGURES SHOWING THAT THE PUBLIC SECTOR ABSORPTION OF TOTAL CREDIT IN ARGENTINA HAD DECLINED FROM 16.2 PERCENT IN 1975 TO 6.2 PERCENT IN 1976 AND FINALLY 3.2 PERCENT IN 1977.

5. TOTAL REVENUE IN 1978 IS EXPECTED TO REACH 23.6 PERCENT OF GDP, WHICH INCLUDES AN INCREASE OF 10 PERCENT IN TAX REVENUE IN RELATION TO 1977 - PROBABLY THE HIGHEST TAX RATE IN ARGENTINA'S HISTORY. THE OPTIMISTIC TAX FORECAST IS BASED PRIMARILY ON SOME OF THE FOLLOWING ASSUMPTIONS:

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- INCREASED EFFICIENCY IN TAX COLLECTION BY THE GENERAL TAX DIRECTORATE (DGI);

-THE BROADER TAX BASE ESTABLISHED IN 1977 AS A RESULT OF THE "WHITEWASH" - I.E. PEOPLE WERE GRANTED FISCAL ABSOLUTION IN RETURN FOR REVEALING TO DGI FORMERLY HIDDEN SOURCES OF INCOME;

-THE ELIMINATION OF EXEMPTIONS TO THE TURNOVER TAX (IVA);

-AN INCREASE OF THE FIVE PERCENT IMPORT DUTIES TO 10 PERCENT AND THE 10 PERCENT IMPORT DUTIES TO 15 PERCENT;

-AN INCREASE IN IMPORT DUTY REVENUE RESULTING FROM THE

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ACTION MMO-02

INFO OCT-01 ARA-10 ISO-00 AID-05 CIAE-00 COME-00 EB-08  
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FM AMEMBASSY BUENOS AIRES  
TO SECSTATE WASHDC 4939  
INFO AMEMBASSY SANTIAGO

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LIBERALIZATION OF CAPITAL GOODS IMPORTS AND FROM THE REDUCTION  
OF EXCESSIVELY HIGH IMPORT DUTIES WHICH FORMERLY KEPT OUT  
GOODS COMPLETELY;

-GREATER TAX COLLECTION AT THE PROVINCIAL AND MUNICIPAL  
LEVEL, PRIMARILY THROUGH REAL ESTATE ASSESSMENTS;

6. THE BUDGET ALSO PLACES AN INCREASED BURDEN ON THE  
PROVINCES AND THE MUNICIPALITY OF BUENOS AIRES TO FINANCE  
ACTIVITIES WHICH WERE FORMERLY THE RESPONSIBILITY OF THE  
FEDERAL GOVERNMENT. THE PRINCIPAL ACTIVITY TRANSFERRED  
TO THE LOCAL GOVERNMENT IS THE PRIMARY SCHOOL SYSTEM, WHICH  
INCLUDES AROUND 6,500 SCHOOLS WITH ALMOST 900,000 STUDENTS  
AND REPRESENTS AN EXPENDITURE OF 207 BILLION PESOS. OTHER  
ACTIVITIES TRANSFERRED INCLUDE HOSPITAL FACILITIES AND  
PROGRAMS TO FINANCE THE CONSTRUCTION OF LOW COST HOUSING.  
AS A RESULT, THE BUDGET SHOWS A 6.8 PERCENT INCREASE IN  
REAL TERMS OF FEDERAL GOVERNMENT SUBSIDIES TO THE PROVINCES  
TO HELP THEM ABSORB SOME OF THE BURDEN OF THESE NEW  
RESPONSIBILITIES.

7. WITH RESPECT TO SUBSIDIES TO THE STATE ENTERPRISES, THE  
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BUDGET SHOWS A DECREASE IN REAL TERMS OF 70 PERCENT IN GOA  
PAYMENTS TO THESE FIRMS. THIS REDUCTION IN SUBSIDY WAS MADE  
POSSIBLE BY THE SUBSTANTIAL REAL INCREASES IN THE RATES  
OF PUBLIC SERVICES WHICH THE GOVERNMENT HAS APPROVED SINCE  
IT ASSUMED POWER. IN 1978, THE RATES OF PUBLIC SERVICES  
WILL BE ADJUSTED ONLY TO MAKE UP FOR INFLATION AND THEREFORE  
WILL REMAIN ABOUT THE SAME IN REAL TERMS. IN ADDITION,  
ONLY TWO COMPANIES WILL RECEIVE SUBSIDIES: THE RAILROADS  
AND THE POSTAL AND TELEGRAPH COMPANY (ENCOTEL). THE GOA  
SUBSIDY TO THE RAILROADS HAS BEEN PROGRESSIVELY REDUCED:  
\$2 MILLION DOLLARS A DAY IN 1976, \$840,000 DA DAY IN 1977,  
AND IN 1978 A PROJECTED \$420,000 DOLLARS A DAY. AT THE  
SAME TIME, THE GOVERNMENT WILL PROCEED TO TRANSFORM STATE  
ENTERPRISES INTO PUBLIC CORPORATIONS IN AN EFFORT TO MAKE  
THEM MORE EFFICIENT AND TO FORCE THEM TO FOLLOW THE SAME  
ACCOUNTING PROCEDURES USED BY PRIVATE COMPANIES. THE  
GOVERNMENT WILL ALSO CONTINUE TO SELL BACK TO THE PRIVATE  
SECTOR THOSE COMPANIES WHICH THE PERONIST GOVERNMENT TOOK  
OVER TO PREVENT THEM FROM CLOSING DOWN AS A RESULT OF

BANKRUPTCY, AS WELL AS SELLING BACK TO THE PRIVATE SECTOR SHARES IN PRIVATE COMPANIES HELD BY THE NATIONAL DEVELOPMENT BANK AND THE NATIONAL SAVINGS AND INSURANCE INSTITUTE. AND LASTLY, THE GOVERNMENT PLANS TO ENGAGE SPECIALIZED CONSULTING FIRMS TO STUDY GOVERNMENT PROCEDURES WITH A VIEW TOWARD SIMPLIFYING THEM AND PERHAPS ELIMINATING OR COMBINING SOME DEPARTMENTS.

8. THE BUDGET REAFFIRMS THE GOA GOAL OF RAISING PUBLIC SECTOR SALRIES BETWEEN 50 AND 100 PERCENT IN REAL TERMS OVER THE NEXT THREE YEARS WHILE AT THE SAME TIME PROCEEDING WITH ADMINISTRATIVE REFORM AND THE REDUCTION IN THE TOTAL NUMBER OF PUBLIC EMPLOYEES. IT REPORTS THAT THE AVERAGE 50 PERCENT SALARY INCREASE IN NOMINAL TERMS GIVEN LIMITED OFFICIAL USE

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TO PUBLIC SECTOR EMPLOYEES ON JANUARY 1, 1978 BROUGHT THE AVERAGE REAL SALARY LEVEL BACK TO THAT PREVAILING IN JANUARY 1977. DURING THE REMAINDER OF 1978, SALARIES WILL BE ADJUSTED UPWARDS EVERY FOUR MONTHS BETWEEN 5 AND 9 PERCENT IN REAL TERMS. THE INTENDED EFFECT OF THIS POLICY IS BOTH TO RAISE THE REAL WAGE LEVEL OF PUBLIC WORKERS AND TO INCREASE THE SPREAD BETWEEN THOSE AT THE TOP OF THE SALARY SCALE AND THOSE AT THE BOTTOM. IN ADDITION, AN EFFORT WILL BE MADE TO ELIMINATE INEQUITABLE SALARY DIFFERENCES EXISTING AMONG DIFFERENT GOVERNMENT ENTITIES FOR THE SAME KIND OF WORK.

9. THE BUDGET INTRODUCTION CONTAINS A STRONG INDICTMENT OF SOME OF THE INVESTMENT PROJECTS BEING FINANCED IN 1978 WHICH WERE INHERITED FROM THE PREVIOUS GOVERNMENT. WITHOUT IDENTIFYING THEM DIRECTLY, THE BUDGET REPORTS THAT AN ANALYSIS OF THE INVESTMENT PROJECTS SHOWS THAT SOME OF THEM WERE BADLY SELECTED, BASED ON POOR EVALUATION CRITERIA AND LACK OF CONCERN WITH MAXIMIZING THE ECONOMIC IMPACT OF PUBLIC INVESTMENT EXPENDITURES. IN ADDITION, PROJECTS WERE FREQUENTLY POORLY EXECUTED AND THERE WAS SUBSTANTIAL WASTE. THE BUDGET CONCLUDES WITH THE HOPE THAT THIS ANALYSIS OF THE BUDGET WILL PREVENT SIMILAR ERRORS IN THE FUTURE. THE BUDGET MESSAGE THEN REVIEWS THE 1978 PUBLIC SECTOR INVESTMENT PLAN -- A MUCH BROADER CONCEPT THAN THAT OF THE TREASURY BUDGET. THE PLAN INCLUDES INVESTMENTS TO BE UNDERTAKEN IN 1978 BY ALL GOVERNMENT ENTITIES, INCLUDING THOSE BY STATE ENTERPRISES AND LOCAL GOVERNMENTS -- A LARGE PERCENTAGE OF WHICH ARE NOT FINANCED BY THE TREASURY BUDGET. THE 1978 INVESTMENT PLAN CALLS FOR PUBLIC SECTOR INVESTMENT OF 5,717 BILLION PESOS, WHICH IS THE

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ACTION MMO-02

INFO OCT-01 ARA-10 ISO-00 AID-05 CIAE-00 COME-00 EB-08

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FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC 4940

INFO AMEMBASSY SANTIAGO

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EQUIVALENT OF 12.6 PERCENT OF THE PROJECTED 1978 GDP --  
SUBSTANTIALLY GREATER THAN THE AVERAGE OF 8.2 PERCENT OF  
GDP INVESTED DURING THE PAST DECADE. OF THIS TOTAL  
INVESTMENT, 1,794 BILLION PESOS IS ALLOCATED FOR ENERGY  
PROJECTS AND 823 BILLION PESOS FOR TRANSPORTATION PROJECTS.  
TAKING INTO ACCOUNT INVESTMENT BY THE PRIVATE SECTOR,  
TOTAL GROSS DOMESTIC INVESTMENT IN 1978 IS EXPECTED TO  
REACH 25 PERCENT OF GDP.

10. THE BUDGET ALSO ESTABLISHES FOR THE FIRST TIME CEILINGS  
ON INCENTIVES UNDER THE INDUSTRIAL AND FORESTRY PROMOTION  
LAWS. THESE INCENTIVES, WHICH TAKE THE FORM OF TAX CREDITS  
FOR PROJECTS APPROVED UNDER THESE LAWS, ARE NOW TREATED  
AS THOUGH THEY ARE EXPENDITURES WHICH HAVE BEEN FINANCED  
WITH TAXES WHICH THE TREASURY IS FOREGOING. THE CEILING  
FOR 1978 IS 240 BILLION PESOS FOR THE INDUSTRIAL PROMOTION  
LAW AND 11 BILLION PESOS FOR THE FORESTRY PROMOTION LAW.

11. IN TERMS OF EXPENDITURE BY SECTOR, THE PRINCIPAL  
PERCENTAGE ALLOCATIONS OF THE BUDGET ARE AS FOLLOWS (1977  
ALLOCATION IN PARENTHESIS): DEFENSE AND SECURITY - 19.5  
(19.2); GENERAL ADMINISTRATION (REFLECTING PRIMARILY SALAREIES)-  
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9.5 (7.8); EDUCATION (NOT INCLUDING PRIMARY SCHOOL  
EXPENDITURES TRANSFERRED TO LOCAL GOVERNMENT ) - 8.8  
(8.8); HEALTH - 3.6 (4.6); SOCIAL WELFARE - 15.3 (13.5);

HEALTH - 3.6 (4.6); AND ECONOMIC DEVELOPMENT - 35.1 (36.1). AS THESE PERCENTAGE ALLOCATIONS INDICATE, THE 1978 BUDGET GIVES A SLIGHTLY GREATER EMPHASIS THAN THE 1977 BUDGET TO BOTH DEFENSE AND SECURITY AND TO SOCIAL WELFARE TYPE ACTIVITIES (SOCIAL WELFARE AND EDUCATION AT LEAST). THE BUDGET INTRODUCTION SPECIFICALLY LAMENTS THE FACT THAT THE HIGH LEVEL OF PUBLIC WORKS INVESTMENTS WHICH HAD TO BE COMPLETED PREVENTED IT FROM ALLOCATING EVEN MORE FUNDS TO EDUCATION, PUBLIC HEALTH, HOUSING, AND ADMINISTRATION OF JUSTICE.

12. COMMENT: THE BUDGET IS AMBITIOUS AND REPRESENTS A VICTORY FOR MINISTER OF ECONOMY MARTINEZ DE HOZ AND HIS TOUGH, OUTSPOKEN SECRETARY OF FINANCE JUAN ALEMANN. THE MINISTER CLEARLY RECEIVED THE NECESSARY POLITICAL SUPPORT FROM PRESIDENT VIDELA AND OTHER INFLUENTIAL MEMBERS OF THE ARMED FORCES (PARTICULARLY IN THE LEGISLATIVE ADVISORY COUNCIL) TO WITHSTAND PRESSURES FROM MANY QUARTERS FOR A LESS

USTERE BUDGET. SOME OF THE UNDERLYING ASSUMPTIONS OF THE BUDGET ARE OPEN TO QUEST -- E.G. THE OPTIMISTIC PROJECTIONS ON INCREASED TAX REVENUE, THIS TIME WITHOUT A "WHITEWASH", THE UNREALISTICALLY LOW ASSUMPTION FOR INFLATION -- 60 PERCENT FOR DECEMBER 1977/DECEMBER 1978 OR AN AVERAGE OF 109 PERCENT FOR THE YEAR. HOWEVER, EVEN IF NOT FULFILLED COMPLETELY, IT IS CLEAR THAT THE BUDGET DEFICIT WILL CEASE TO BE A PRIMARY CAUSE OF INFLATION IN 1978. MOREOVER, AS HAPPENED IN 1977, EVEN IF THE PESO BUDGET IS NOT ACHIEVED DUE TO GREATER INFLATION THAN ASSUMED, THE ONE PERCENT DEFICIT GOAL IN TERMS OF GDP COULD WITH LUCK BE ATTAINED.  
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13. AS FAR AS THE BUDGET'S EFFECT ON THE MONEY SUPPLY, THE MINISTER IS LESS CANDID THAN HE COULD HAVE BEEN. HE HAS EMPHASIZED THAT THE TREASURY WILL HAVE NO RECOURSE TO CENTRAL BANK CREDIT TO FINANCE ITS DEFICIT, IMPLYING AT THE SAME TIME THAT THIS WILL NEUTRALIZE THE PUBLIC SECTOR'S EFFECT ON THE MONEY SUPPLY. THIS IS CLEARLY NOT THE CASE, PARTICULARLY IF THE CONSOLIDATED BUDGET CONCEPT IS USED. AS HE INDICATES, UP TO 2.1 PERCENT OF GDP WILL BE OBTAINED IN FOREIGN FINANCING FOR THE PUBLIC SECTOR IN 1978. TO THE EXTENT THAT THESE FUNDS ARE USED TO FINANCE THE LOCAL COSTS OF SUCH PROJECTS AS HIGHWAYS, HOUSING, AND SILOS, THE IMPACT ON THE DOMESTIC MONEY SUPPLY IS SIMILAR TO DEFICIT FINANCING THROUGH THE CENTRAL BANK.

14. IN DISCUSSING THE BUDGET, THE MINISTER OF ECONOMY ALSO ADDRESSED CRITICISM FROM SUCH QUARTERS AS ROGELIO FRIGERIO, EMINENCE GRISE UNDER PRESIDENT FRONDIZI AND AN APPARENT

ASPIRANT TO REPLACE MARTINEZ DE HOZ, TO THE EFFECT THAT THE "REAL" BUDGET DEFICIT IS MUCH HIGHER THAN THE GOVERNMENT IS ADMITTING. THE CRITICISM IS PRIMARILY BASED ON THE FACT THAT, WHEREAS UNDER THE PERONIST REGIME THE PUBLIC ENTERPRISES RELIED PRIMARILY ON THE TREASURY FOR FINANCING, THESE ENTERPRISES NOW OBTAIN MOST OF THEIR FINANCING EITHER FROM THE LOCAL PRIVATE CAPITAL MARKET OR FROM ABROAD. CRITICS CLAIM THAT THE RESULTING REDUCTION IN TREASURY OUTLAYS IS MERELY A COSMETIC ACCOUNTING CHANGE AND THAT THE GOVERNMENT HAS MADE NO PROGRESS IN LOWERING PUBLIC SECTOR EXPENDITURES. WHILE AGREEING THAT THE DEFICIT WOULD BE LARGER IF SUCH PRIVATE BORROWING IS INCLUDED, THE MINISTER SHOWED THAT THE GAP WAS SMALLER THAN CLAIMED BY HIS CRITICS - E.G. 3.8 PERCENT OF GDP RATHER THAN

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ACTION MMO-02

INFO OCT-01 ARA-10 ISO-00 AID-05 CIAE-00 COME-00 EB-08  
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OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 L-03 A-01  
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TO SECSTATE WASHDC 4941  
INFO AMEMBASSY SANTIAGO

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THE 14 PERCENT FIGURE DEVELOPED BY FRIGERIO.

15. WITH RESPECT TO PUBLIC INVESTMENT, IT IS CLEAR THAT THE GOVERNMENT IS BENT ON PLACING THE BLAME ON THE PREVIOUS PERONIST REGIME FOR THE HIGH EMPHASIS ON PUBLIC WORKS EXPENDITURES (AND IN PARTICULAR FOR SOME DUBIOUS EXPENDITURES FOR INFRASTRUCTURE RELATED WITH THE 1978 WORLD SOCCER CUP CHAMPIONSHIP) RATHER THAN ON SOCIAL PROJECTS. IN THIS RESPECT, THE ARGENTINE PUBLIC HAS BEEN TREATED TO AN AMUSING PUBLIC DEBATE BETWEEN SECRETARY OF FINANCE JUAN ALEMANN AND GENERAL ANTONIO LUIS MERLO, WHO IS HEAD OF THE WORLD SOCCER CUP ENTITY (EAM). ALEMANN ATTACKED EXPENDITURES FOR THE WORLD CUP WHICH HE CLAIMED HAVE BALLOONED TO \$700 MILLION. HE POINTED OUT THAT SOME



OF THE STADIUMS ARE BEING CONSTRUCTED IN CITIES IN THE INTERIOR WHERE THERE IS INSUFFICIENT HOTEL SPACE TO PUT UP VISITORS WISHING TO SEE THE GAMES AND WHERE SUBSEQUENTLY THE MUNICIPALITIES WILL HAVE DIFFICULTY MAINTAINING THE FACILITIES. ALEMANN ADDED THAT THE MONEY COULD HAVE BEEN BETTER SPENT ON SOCIAL PROJECTS IN THE FIELD OF HEALTH, EDUCATION, AND HOUSING. MERLO, ON THE OTHER HAND, DENIED THAT EXPENDITURES FOR THE WORLD SOCCER CHAMPIONSHIP TOTAL LIMITED OFFICIAL USE

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AS MUCH AS ALEMANN CLAIMS AND CALLED FOR ALEMANN'S RESIGNATION FOR BEING DISLOYAL. ALEMANN WAS THE CLEAR WINNER IN THE DEBATE. ASIDE FROM ITS ANECDOTAL VALUE, HOWEVER, THE INCIDENT HIGHLIGHTED THE GOVERNMENT'S DESIRE TO GIVE GREATER EMPHASIS TO SOCIAL EXPENDITURES IN FUTURE BUDGETS.

16. AS FAR AS THE IMPACT ON THE ECONOMY IS CONCERNED, THE BUDGET'S RELATIVE AUSTERITY LIMITS THE GOVERNMENT'S ABILITY TO PROVIDE A FISCAL STIMULUS TO BRING THE ECONOMY OUT OF ITS CURRENT RECESSION. MOREOVER, THE IMPACT ON THE ECONOMY WILL BE SPREAD UNEVENLY THROUGHOUT THE YEAR. IN THE FIRST SEMESTER, THE BUDGET'S DEFICIT RATE WILL BE GREATER AND THEREFORE PROVIDE A SLIGHT STIMULUS TO THE ECONOMY; IN THE SECOND SEMESTER, THE REVERSE IS PROJECTED, WITH FISCAL FLOWS TENDING TO DAMPEN ECONOMIC ACTIVITY.

17. EMBASSY WILL TRANSMIT FURTHER DETAILS ON THE BUDGET BY AIRGRAM.  
CASTRO

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## Message Attributes

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**Review Content Flags:**  
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**To:** STATE  
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Sheryl P. Walter  
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